

Federal Acquisition Service

The Federal Strategic Sourcing Initiative (FSSI)

Process Overview



Successful strategic sourcing programs are based on understanding the commodity across three dimensions

Customer Needs

- What are customer's pain points, and what are their root causes?
- What does the solution need to achieve to be adopted by customers?

Drivers of TCO

- How is the commodity bought?
- How is the commodity used?
- What business processes drive use of the commodity?

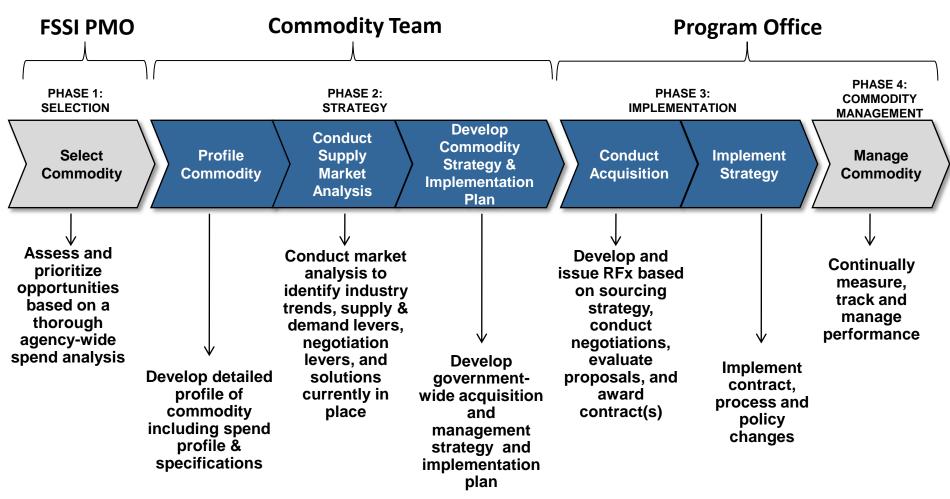
Market Trends

- How have commercial firms improved the TCO of the commodity?
- What market trends are impacting suppliers?



The FSSI Strategic Sourcing process provides a structured approach to analyzing a commodity and developing/ implementing a Commodity Strategy

GOVERNMENT-WIDE STRATEGIC SOURCING PROCESS – HIGH LEVEL OVERVIEW





Strategic sourcing commodity strategies should focus on those drivers that yield the most benefit, aligning level of effort with expected return

- Different commodities derive their benefits from strategic sourcing in different ways
- The objectives of a commodity strategy, and therefore the level of effort invested in a strategic sourcing initiative, should focus on those areas where the most benefit impact can be realized

EXAMPLES OF SOURCES OF STRATEGIC SOURCING BENEFITS

COMMODITY A



COMMODITY B



- Commodity A derives benefit primarily through unit price reduction and some initial specifications review
- Commodity B is a more complex commodity and leverages all drivers to maximize the benefit of the strategic sourcing process for this commodity

STRATEGIC SOURCING LEVELS OF FOCUS

Drivers of Benefits	LEVEL I	LEVEL II	LEVEL III
Unit Price Reduction			
Specification Review			
Consumption Management			
Business Process Improvement			

Shaded areas denote commodity strategy focus



The focus within each step of the strategic sourcing process can then be tailored to target the appropriate set of benefits

FSSI Strategic Sourcing and Commodity Management Process PHASE 1: OPPORTUNITY SELECTION PHASE 4: COMMODITY PHASE 2: STRATEGY DEVELOPMENT PHASE 3: IMPLEMENTATION MANAGEMENT Develop Conduct **Profile** Commodity Select Conduct Supply Implement Manage Acquisition Commodity Market Analysis Sourcing Commodity Strategy Commodity And/Or Develop Strategy Impl Plan Primary Benefits of Strategic Sourcing Reduction in Cost Per Improved Focus on Improved Operating Change in Unit Socio-Economic Goals Efficiency Consumption/Volume Reduced Procurement-**Pricing Improvements** Socio-economic Goals Specification Review Lower unit price Structured analysis of Eliminate "gold-plating" Related Operating Expense Volume rebates small/disadvantaged business Simplify specifications PO Processing Payment term discounts opportunities Alternative products Accounts Payable Receipt/Warehousing Supply Chain Savings Standardized procurement Cost of capital **Demand Management** process Warehousing costs Eliminate demand Shipping costs Reduce consumption Reduced Non-Procurement Encourage substitution Reduced Lifecycle Costs Related Operating Expense Change product mix Maintenance costs Other operating efficiencies Operating costs Performance Monitoring Disposition costs Structured metrics and LEVEL I periodic review of contractor LEVEL II performance LEVEL III



Although each program is unique, there are common objectives and activists across all Commodity Teams

Strategy

	Phase Objectives	Key Activities
Profile Commodity	Understand the costs, value, and business requirements of the commodity	 Define program scope Conduct spend analysis Analyze current processes and business requirements
Conduct Supply Market Analysis	Understand competitive dynamics of the market and commercial best practices for managing TCO	Segment supply marketConduct value chain analysisAnalyze commercial best practices
Develop Commodity Strategy & Implementation Plan	Develop the optimal approach for lowering commodity TCO based on preceding analyses	 Identify objectives & tactics for lowering TCO Develop business case Develop implementation plan
Conduct Acquisition	Develop best-in-class contract vehicles to support commodity strategy	 Develop RFx / SOO Develop pricing analysis approach based on TCO analysis Evaluate, negotiate, and award contract
Implement Strategy	Drive agency usage of the solution and ensure value is achieved	 Execution communication plan Develop & distribute agency business cases Implement value-add components of Commodity



Several lessons have been learned from past FSSI programs

COMMON CHALLENGES

Difficulty achieving active agency participation



MITIGATION APPROACHES

- Conduct frequent 1-on-1 discussions to encourage participation from individuals who may not feel comfortable speaking out in a group setting
- Use active team facilitation techniques
- Continue agency outreach throughout the process

Commodity Teams can rapidly lose momentum if constant progress is not made



- Conduct regular meetings with Commodity Team (every 2 3 weeks)
- Send frequent communications between team meetings
- Develop timelines that are both aggressive and achievable

Strategy development is an ambiguous process which must be conducted with imperfect information



- Identify what information is critical (vs. 'nice to have') to develop a the commodity strategy
- Team leaders must balance driving the development of strategy with ensuring agency participation

Detailed data is typically either not available or is difficult to collect



- Make data requests early in the process
- Develop an estimation approach when hard data is not available
- Ensure data is collected as part of the program to ensure the second generation solution can be more data driven